

ALLEGAN PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2007

CONTENTS

Page

Independent auditors' report	iv - v
Management's Discussion and Analysis	vi – xii
Basic financial statements	
Government-wide financial statements	
Statement of net assets	1
Statement of activities	2
Fund financial statements	
Balance sheet - governmental funds	3
Statement of revenues, expenditures and changes in fund balances - governmental funds	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	5
Fiduciary funds	
Statement of fiduciary assets and liabilities	6
Notes to financial statements	7 - 24
Required supplementary information	25
Budgetary comparison schedule - general fund	26
Additional information	27
Nonmajor governmental fund types	
Combining balance sheet	28
Combining statement of revenues, expenditures, and changes in fund balances	29

CONTENTS

	<u>Page</u>
Special revenue funds	
Combining balance sheet	30
Combining statement of revenues, expenditures and changes in fund balances	31
Debt service funds	
Combining balance sheet	32
Combining statement of revenues, expenditures and changes in fund balances	33
Fiduciary funds	
Statement of cash receipts, disbursements and liabilities by activity - agency fund.....	34 - 35
Long-term debt	
Bonded debt	36 – 39
AAESA loan	40
School bond loan and revolving loan funds.....	41



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan Public Schools
Allegan, Michigan

October 1, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Public Schools as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Allegan Public Schools

October 1, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2007, on our consideration of Allegan Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xii and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan Public Schools' basic financial statements. The additional information on pages 28 to 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer, Costeniser & Ellis, P.C.

Certified Public Accountants

MANAGEMENT DISCUSSION AND ANALYSIS

This section of Allegan Public Schools' (APS) annual financial report presents an analysis of the District's financial performance during the fiscal year that ended on June 30, 2007.

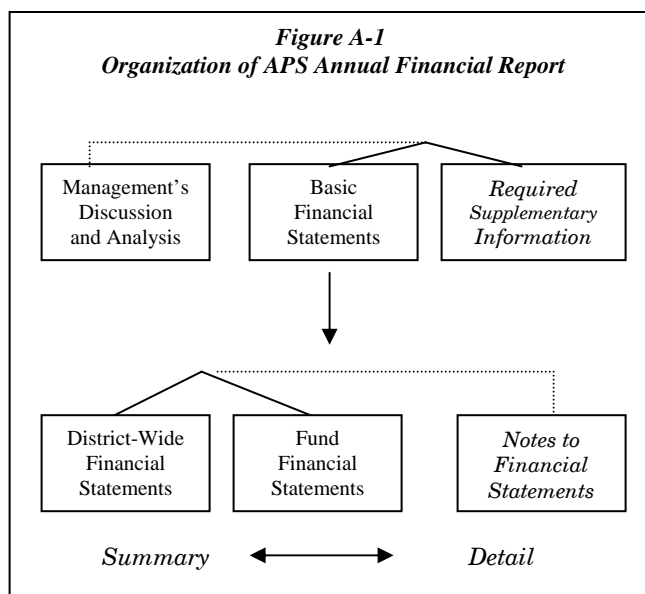
FINANCIAL HIGHLIGHTS

- The District's total net assets decreased approximately (\$637,000).
- Overall revenues were approximately \$28,100,000, fully (\$637,000) less than expenses.
- The total expenses were \$28,700,000.
- Student enrollment remained virtually stable with a slight decrease.
- The District reduced its outstanding long-term debt approximately \$1,600,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include various kinds of statements that present different views of the District:

- The first two statements are district-wide ***financial statements*** that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are ***fund financial statements*** that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The ***governmental funds statements*** tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- ***Fiduciary funds statements*** provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Allegan Public Schools' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets

The District's combined net assets were less on June 30, 2007, than they were the year before by (\$637,808).

Table A-3 Allegan Public Schools' Net Assets		
	<u>2007</u>	<u>2006</u>
Current assets	\$ 6,957,005	\$ 6,879,046
Capital assets	<u>47,080,873</u>	<u>48,800,952</u>
Total assets	<u>54,037,878</u>	<u>55,679,998</u>
Long-term debt outstanding	40,600,575	42,193,618
Other liabilities	<u>7,238,940</u>	<u>6,650,209</u>
Total liabilities	<u>47,839,515</u>	<u>48,843,827</u>
Net assets:		
Invested in capital assets, net of related debt	5,580,180	4,705,202
Unrestricted	<u>618,183</u>	<u>2,130,969</u>
Total net assets	<u>\$ 6,198,363</u>	<u>\$ 6,836,171</u>

Table A-4 Changes in Allegan Public Schools' Net Assets		
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 492,308	\$ 572,297
Federal and state categorical grants (operating grants)	1,838,361	1,844,422
General revenues:		
Property taxes	7,480,726	6,651,758
State aid - unrestricted	17,249,849	17,585,768
Other	<u>1,001,436</u>	<u>1,026,237</u>
Total revenues	<u>28,062,680</u>	<u>27,680,482</u>
Expenses:		
Instruction	14,359,349	13,791,693
Support services	8,685,501	8,355,633
Community services	225,590	229,580
Food services	953,811	930,567
Athletics	637,580	633,370
Interest on long-term debt	2,120,339	2,269,685
Unallocated depreciation	<u>1,718,318</u>	<u>1,695,497</u>
Total expenses	<u>28,700,488</u>	<u>27,906,025</u>
Decrease in net assets	<u>\$ (637,808)</u>	<u>\$ (225,543)</u>

District Governmental Activities

The current status of the District's finances can be credited both to a struggling State economy and innovative management changes and belt-tightening:

- The State increased the foundation allowance to \$7,085 per pupil up from last year's foundation allowance of \$6,875.
- The District successfully negotiated labor contracts with all employee groups that included an average of 1.5% increases in salaries (other than step increases already negotiated).
- The District continued to maintain an Efficiency Plan which was implemented to include economies in staff professional development, food service, transportation, athletics, professional staffing, food service, and maintenance/custodial services. The goal remains to initiate changes that reduce the cost of operating the District and reinvest the savings in programs to modernize and raise the quality of education.
- The District continued an Energy Management program with an estimated cost avoidance savings of \$444,567 (from November 2004 through September 2007).

These actions resulted in continued savings to the District for school year 2006-07.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,052,772, which is below last year's ending fund balances of \$2,548,998.

The majority of the District's governmental funds had less revenues than expenditures in 2006; thereby contributing to the decrease in total fund balance. For the year, the General Fund ran a deficit where expenditures were \$493,893 above revenues after transfers out. Debt Service Funds ended the year with revenues exceeding expenditures by approximately \$25,291. Special Revenue Funds (that record the School Lunch Fund, the Athletic Fund, and the Community Services Fund) ended the year with fund balances being reduced after transfers in by \$27,624.

Enrollment in the District was 2,901 compared to 2,947 students in the prior year.

General Fund Budgetary Highlights:

Over the course of the year, the District revised the annual operating budget on two occasions. These budget amendments are:

- Changes made to account for final enrollment counts and changes in assumptions since the original budget were adopted.
- While the District's final budget for the general fund anticipated that revenues would be exceeded by expenditures and transfers by \$896,868, the actual results for the year show a \$(493,893) deficit.
- Actual revenues were \$209,851 more than expected, due largely to additional local revenue.
- The actual expenditures were \$250,893 below budget, due primarily to staff downsizing and other operational efficiencies implemented during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2007 the District had invested \$68.1 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment and administrative offices. This amount represents a net decrease of \$1,712,779 after depreciation. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year exceeded \$1.8 million.

Table A-5				
Allegan Public Schools' Capital Assets				
	2007			2006
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 206,431	\$	\$ 206,431	\$ 206,431
Buildings & additions	58,712,170	14,192,915	44,519,255	45,895,169
Technology	1,982,095	1,706,206	275,889	217,873
Athletic equipment	808,458	456,875	351,583	390,672
General equipment	4,910,100	3,674,631	1,235,469	1,482,184
Transportation equipment	1,572,091	1,247,743	324,348	433,425
Total	<u>\$ 68,191,345</u>	<u>\$ 21,278,370</u>	<u>\$ 46,912,975</u>	<u>\$ 48,625,754</u>

The District's fiscal year 2008 capital budget anticipates no significant purchases. Depreciation expense for 2007 was \$1,877,186.

Long-term Debt

At year-end, the District had \$42.5 million in general obligation bonds and other long-term debt outstanding, a reduction of \$1.6 million. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

- The District continued to pay down its debt, retiring \$1.9 million of outstanding bonds and other debt.

Table A-6		
Allegan Public School's Outstanding Long-Term Debt		
2007 - 2006		
<i>(in millions of dollars)</i>		
	2007	2006
General obligation bonds		
(financed with property taxes)	\$ 36.3	\$ 37.8
Other	6.3	6.4
Total	<u>\$ 42.6</u>	<u>\$ 44.2</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2007-2008 foundation allowance has not been finalized by the State of Michigan. This foundation allowance represents 70 percent of the total District revenue.
- Negotiations with the teachers and all other employee groups have been completed for the 2007-2008 school year.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts (Durant).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's office, Allegan Public Schools, 550 Fifth Street, Allegan, MI 49010 (269.673.5431).

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental activities
<hr/>	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 3,401,152
Investments	145,376
Receivables:	
Other governmental units	3,269,265
Other	82,334
Taxes	11,245
Inventories	47,633
TOTAL CURRENT ASSETS	<hr/> 6,957,005 <hr/>
NONCURRENT ASSETS:	
Deferred bond issuance costs	167,898
Capital assets	68,191,345
Less accumulated depreciation	(21,278,370)
TOTAL NONCURRENT ASSETS	<hr/> 47,080,873 <hr/>
TOTAL ASSETS	<hr/> \$ 54,037,878 <hr/>
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 154,474
Accounts payable - fiduciary fund	64,977
Accrued interest	372,416
Accrued salaries and related items	1,452,022
Note payable	2,500,000
Deferred revenue	647,224
Current portion of long term obligations	2,039,827
Current portion of compensated absences	8,000
TOTAL CURRENT LIABILITIES	<hr/> 7,238,940 <hr/>
NONCURRENT LIABILITIES:	
Noncurrent portion of long term obligations	40,487,782
Compensated absences	112,793
TOTAL NONCURRENT LIABILITIES	<hr/> 40,600,575 <hr/>
TOTAL LIABILITIES	<hr/> 47,839,515 <hr/>
NET ASSETS:	
Invested in capital assets net of related debt	5,580,180
Unrestricted	618,183
TOTAL NET ASSETS	<hr/> 6,198,363 <hr/>
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 54,037,878 <hr/>

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 14,359,349	\$	\$ 1,315,782	\$ (13,043,567)
Support services	8,685,501		48,430	(8,637,071)
Community services	225,590	40,742		(184,848)
Food services	953,811	356,620	474,149	(123,042)
Athletics	637,580	94,946		(542,634)
Interest on long-term debt	2,120,339			(2,120,339)
Unallocated depreciation	1,718,318			(1,718,318)
Total governmental activities	<u>\$ 28,700,488</u>	<u>\$ 492,308</u>	<u>\$ 1,838,361</u>	<u>(26,369,819)</u>
General revenues:				
Property taxes, levied for general purposes				3,723,677
Property taxes, levied for debt service				3,757,049
Investment earnings				155,041
State sources				17,249,849
Intermediate district sources				492,569
Other				353,826
Total general revenues				<u>25,732,011</u>
CHANGE IN NET ASSETS				(637,808)
NET ASSETS, beginning of year				<u>6,836,171</u>
NET ASSETS, end of year				<u>\$ 6,198,363</u>

See notes to financial statements.

ALLEGAN PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General fund	Other nonmajor governmental funds	Total governmental funds
ASSETS			
ASSETS:			
Cash	\$ 2,890,137	\$ 511,015	\$ 3,401,152
Investments	145,376		145,376
Receivables:			
Due from other governmental units	3,263,170	6,095	3,269,265
Other	81,127	1,207	82,334
Due from other funds	120,266	203,470	323,736
Taxes	1,170	10,075	11,245
Inventories	39,276	8,357	47,633
TOTAL ASSETS	\$ 6,540,522	\$ 740,219	\$ 7,280,741
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 146,777	\$ 7,697	\$ 154,474
Accounts payable - fiduciary funds	64,977		64,977
Accrued interest	80,947		80,947
Accrued salaries and related items	1,452,022		1,452,022
Deferred revenue	641,738	10,075	651,813
Due to other funds		323,736	323,736
Note payable	2,500,000		2,500,000
TOTAL LIABILITIES	4,886,461	341,508	5,227,969

	General fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:			
Reserved for:			
Debt service	\$	\$ 396,653	\$ 396,653
Inventories	39,276	8,357	47,633
Total reserved	39,276	405,010	444,286
Unreserved:			
Designated for subsequent year expenditures	237,134		237,134
Undesignated	1,377,651	(6,299)	1,371,352
TOTAL FUND BALANCES	1,654,061	398,711	2,052,772
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,540,522	\$ 740,219	\$ 7,280,741
Total governmental fund balances			\$ 2,052,772

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital assets is	68,191,345
Accumulated depreciation is	(21,278,370)
Deferred revenue at June 30, 2007 collected after September 1st	4,589
Deferred bond issuance costs	167,898
Accrued interest is not included as a liability in government funds, it is recorded when paid	(291,469)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Long-term debt	(42,994,955)
Deferred amount on bond refunding	1,189,891
Premium on debt	(722,545)
Compensated absences	(120,793)
Net assets of governmental activities	\$ 6,198,363

ALLEGAN PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in fund balances total governmental funds	\$ (496,226)
---	--------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,877,186)
Capital outlay	164,407

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	308,221
Accrued interest payable end of the year	(291,469)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Principal repayment	1,985,152
Proceeds from school bond loan fund	(28,122)
Proceeds from long-term debt	(79,307)
Amortization of premium	31,415
Amortization of bond issuance costs	(7,300)
Amortization of bond refunding	(51,734)
Accrued interest on school bond loan fund	(289,263)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(4,695)
Deferred revenue end of the year	4,589

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	114,503
Accrued compensated absences end of the year	(120,793)

Change in net assets of governmental activities	\$ (637,808)
--	---------------------

ALLEGAN PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007

	<u>Agency funds</u>
ASSETS	
Cash	\$ 42,433
Due from general fund	<u>64,977</u>
	<u>\$ 107,410</u>
LIABILITIES	
Accounts payable	\$ 323
Due to student groups	<u>107,087</u>
	<u>\$ 107,410</u>

ALLEGAN PUBLIC SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Allegan Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Allegan Public Schools (the "District") is governed by the Allegan Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Nonmajor Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service, athletic activities and community services in the special revenue funds.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

For the year ended June 30, 2007, approximately \$385,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	18.0000
Debt service fund - Homestead and non-homestead	7.5500

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds).

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated absences

The District’s contracts generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. Net asset reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$5,348,880 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$1,026,916 has been included in the calculation of unrestricted net assets.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2007, the District had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment pool - MICMS	\$ 107,617	0.0027	AAAm	74.0%
MILAF External Investment pool -MIMAX	<u>37,759</u>	0.0027	AAAm	<u>26.0%</u>
Total fair value	<u>\$ 145,376</u>			<u>100.0%</u>

Portfolio weighted average maturity	<u>0.0027</u>
-------------------------------------	---------------

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$3,506,003 of the District's bank balance of \$3,606,003 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The carrying amount on the financial statements is \$3,401,152 and \$42,433 for the fiduciary assets.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

The amounts are reported in the financial statements as follows:

Cash agency fund	\$ 42,433
Cash - District-wide	3,401,152
Investments - District-wide	<u>145,376</u>
	<u><u>\$ 3,588,961</u></u>

NOTE 4 - RECEIVABLES

Receivables from governmental units at June 30, 2007 consist of the following:

	<u>General fund</u>
Other governmental units:	
State aid	\$ 2,984,647
Federal revenue	149,730
Other	<u>134,888</u>
	<u><u>\$ 3,269,265</u></u>

No allowance for doubtful accounts is considered necessary.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Assets not being depreciated - land	\$ 206,431	\$	\$	\$ 206,431
Other capital assets:				
Buildings and additions	58,712,170			58,712,170
Technology	1,842,688	164,407	(25,000)	1,982,095
Athletic equipment	808,458			808,458
General equipment	4,910,100			4,910,100
Transportation equipment	1,572,091			1,572,091
Subtotal	67,845,507	164,407	(25,000)	67,984,914
Accumulated depreciation:				
Buildings and additions	12,817,001	1,375,914		14,192,915
Technology	1,624,815	106,391	(25,000)	1,706,206
Athletic equipment	417,786	39,089		456,875
General equipment	3,427,916	246,715		3,674,631
Transportation equipment	1,138,666	109,077		1,247,743
Total accumulated depreciation	19,426,184	1,877,186	(25,000)	21,278,370
Net other capital assets	48,419,323	(1,712,779)		46,706,544
Net capital assets	<u>\$ 48,625,754</u>	<u>\$ (1,712,779)</u>	<u>\$</u>	<u>\$ 46,912,975</u>

Depreciation for assets serving multiple functions is unallocated.

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Athletics	\$ 39,089
Food services	8,647
Support services	111,132
Unallocated	1,718,318
	<u>\$ 1,877,186</u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2007 the District has outstanding a \$2,500,000 revenue note (state aid note) dated August 18, 2006. The note, which has an interest rate of 3.68%, matures August 20, 2007. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
<u>\$ 1,823,000</u>	<u>\$ 2,500,000</u>	<u>\$ 1,823,000</u>	<u>\$ 2,500,000</u>

The District has borrowed \$3,000,000 for the year ending June 30, 2008.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT

The District issues general obligations bonds and Michigan Municipal Bond Authority bonds and notes to provide funds for the acquisition, construction and improvement of major capital facilities, as well as, the purchase of equipment. These bonds and notes are direct obligations and pledge the full faith and credit of the District. Long-term debt is as follows:

\$25,290,000 - 1998 refunding bonds due in annual installments of \$845,000 to \$1,670,000 through May 1, 2022; interest from 4.35% to 5.10%	\$ 21,135,000
\$17,890,000 - 2000 general obligation bond issue (non-refunded portion) due in annual installments of \$450,000 to \$475,000 through May 1, 2010; interest from 4.75% to 6.00%	1,400,000
\$13,925,000 - 2005 refunding bonds due in annual installments of \$55,000 to \$740,000 through May 1, 2030; interest from 3.00% to 5.00%	13,815,000
Plus: premium on bond refunding	722,545
Less: deferred amount on bond refunding	<u>(1,189,891)</u>
	35,882,654
 \$463,213 - School Improvement Bonds Limited Obligation Bonds (Durant) due in annual installments of \$25,779 to \$75,096 through May 15, 2013; interest at 4.76%. Certain State Aid payments have been pledged as security.	 <u>189,852</u>
Total bonded debt	36,072,506
Loan from AAESA - payments of \$19,827 annually	79,307
 Borrowings from the State of Michigan under the School Bond Loan and Revolving Loan Funds, including interest	 6,375,796
Compensated absences	<u>120,793</u>
Total general long-term debt	<u><u>\$ 42,648,402</u></u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding excluding compensated absences and school bond loan fund borrowings as of June 30, 2007, including interest of \$17,028,589 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 2,039,827	\$ 1,748,816	\$ 3,788,643
2009	2,160,606	1,664,000	3,824,606
2010	2,299,923	1,580,707	3,880,630
2011	2,238,118	1,455,341	3,693,459
2012	2,229,637	1,354,809	3,584,446
2013-2017	11,186,048	5,199,956	16,386,004
2018-2022	8,545,000	2,692,960	11,237,960
2023-2027	3,700,000	1,110,000	4,810,000
2028-2030	2,220,000	222,000	2,442,000
	<u>\$ 36,619,159</u>	<u>\$ 17,028,589</u>	<u>53,647,748</u>
Premium on bond refunding			722,545
Deferred charge on bond refunding			(1,189,891)
Borrowings from the State of Michigan under the School Bond Loan and Revolving Loan Funds, including interest			6,375,796
Compensated absences			<u>120,793</u>
Total long-term debt including interest			<u>\$ 59,676,991</u>

\$396,653 of funds are available in the debt service funds to service the general obligation debt.

Borrowing from the State of Michigan - The school bond loans payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 4.039% - 5.03529% for the School Revolving Fund notes and 4.50% - 4.875% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2007. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.55 mills. The school district is required to levy 7.55 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2007:

	Compensated absences	Bonds and other debt	Total
Balance July 1, 2006	\$ 114,503	\$ 44,095,750	\$ 44,210,253
Additions	6,290	396,692	402,982
Deletions		(1,964,833)	(1,964,833)
Balance June 30, 2007	120,793	42,527,609	42,648,402
Less current portion	(8,000)	(2,039,827)	(2,047,827)
Total due after one year	<u>\$ 112,793</u>	<u>\$ 40,487,782</u>	<u>\$ 40,600,575</u>

Interest expense (all funds) for the year ended June 30, 2007 was approximately \$1,930,000.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, \$33,225,000 of bonds outstanding are considered defeased.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 16.34% of payroll through September 30, 2006 and 17.74% effective October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the years ended June 30, 2007, 2006, and 2005 were \$2,360,000, \$2,080,000 and \$1,860,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits and post-employment benefits which is the responsibility of the State of Michigan.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund		Payable fund	
General fund	\$ 120,266	2005 debt service fund	\$ 41,873
		1998 debt service fund	161,597
		Athletic fund	749
1996 debt service fund	21,321	School lunch fund	102,151
2000 debt service fund	182,149	Community service fund	17,366
	<u>\$ 323,736</u>		<u>\$ 323,736</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

The District is self insured for dental coverage. The current year expense for June 30, 2007 was approximately \$225,000. Any liability for incurred and unreported claims is considered immaterial.

NOTE 11 - TRANSFERS

The general fund transferred \$95,295 to the school lunch fund, \$499,823 to the athletic fund, and \$53,026 to the community services fund. The transfers were to subsidize operations in these funds.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local	\$ 3,937,540	\$ 4,032,540	\$ 4,194,652	\$ 162,112
State sources	18,448,391	17,843,403	17,891,760	48,357
Federal sources	868,427	797,618	722,301	(75,317)
Incoming transfers and other transactions	426,570	417,870	492,569	74,699
Total revenues	23,680,928	23,091,431	23,301,282	209,851
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	11,538,467	11,420,462	11,281,434	139,028
Added needs	2,968,502	3,155,835	3,029,766	126,069
Adult and community education	50,804	54,756	44,930	9,826
Total instruction	14,557,773	14,631,053	14,356,130	274,923
Support services:				
Pupil	1,868,131	1,712,302	1,709,721	2,581
Instructional staff	421,295	495,766	498,501	(2,735)
General administration	513,369	527,844	524,032	3,812
School administration	1,467,839	1,461,937	1,431,258	30,679
Business	351,202	328,543	445,135	(116,592)
Operation and maintenance	2,682,736	2,842,095	2,792,399	49,696
Transportation	1,234,635	1,196,824	1,190,186	6,638
Central service	162,346	149,631	162,838	(13,207)
Total support services	8,701,553	8,714,942	8,754,070	(39,128)
Community services	142,921	120,936	106,756	14,180
Outgoing transfers and other	248,051	10,300	9,382	918
Total expenditures	23,650,298	23,477,231	23,226,338	250,893
EXCESS OF REVENUES OVER EXPENDITURES	30,630	(385,800)	74,944	460,744
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term borrowing		79,307	79,307	
Operating transfers out	(580,871)	(590,375)	(648,144)	(57,769)
Total other financing sources (uses)	(580,871)	(511,068)	(568,837)	(57,769)
NET CHANGE IN FUND BALANCE	<u>\$ (550,241)</u>	<u>\$ (896,868)</u>	<u>(493,893)</u>	<u>\$ 402,975</u>
FUND BALANCES:				
Beginning of year			2,147,954	
End of year			<u>\$ 1,654,061</u>	

ADDITIONAL INFORMATION

**ALLEGAN PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2007**

	Special revenue	Debt service	Total nonmajor governmental funds
ASSETS			
ASSETS:			
Cash	\$ 114,362	\$ 396,653	\$ 511,015
Receivables:			
Due from other governmental units	6,095		6,095
Other	1,207		1,207
Due from other funds		203,470	203,470
Taxes		10,075	10,075
Inventories	8,357		8,357
TOTAL ASSETS	<u><u>\$ 130,021</u></u>	<u><u>\$ 610,198</u></u>	<u><u>\$ 740,219</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 7,697	\$	\$ 7,697
Deferred revenue		10,075	10,075
Due to other funds	120,266	203,470	323,736
TOTAL LIABILITIES	<u>127,963</u>	<u>213,545</u>	<u>341,508</u>
FUND BALANCES:			
Reserved for:			
Debt service		396,653	396,653
Inventories	8,357		8,357
Total reserved	8,357	396,653	405,010
Unreserved:			
Undesignated	(6,299)		(6,299)
TOTAL FUND BALANCES	<u>2,058</u>	<u>396,653</u>	<u>398,711</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 130,021</u></u>	<u><u>\$ 610,198</u></u>	<u><u>\$ 740,219</u></u>

ALLEGAN PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2007

	Special revenue	Debt service	Total nonmajor governmental funds
REVENUES:			
Local sources:			
Property taxes	\$	\$ 3,751,987	\$ 3,751,987
Food service sales	356,620		356,620
Athletic admissions	94,946		94,946
Community services	40,742		40,742
Interest	8,130	27,493	35,623
Other local revenue	7,437		7,437
Total local sources	507,875	3,779,480	4,287,355
State sources	32,474		32,474
Federal sources	441,675		441,675
Total revenues	982,024	3,779,480	4,761,504
EXPENDITURES:			
Current:			
Food service activities	945,164		945,164
Athletic activities	598,491		598,491
Community services	114,137		114,137
Debt service:			
Principal retirement		1,935,000	1,935,000
Interest and fiscal charges		1,846,185	1,846,185
Miscellaneous		1,126	1,126
Total expenditures	1,657,792	3,782,311	5,440,103
DEFICIENCY OF REVENUES OVER EXPENDITURES	(675,768)	(2,831)	(678,599)
OTHER FINANCING SOURCES:			
Operating transfers in	648,144		648,144
Proceeds from school bond loan fund		28,122	28,122
Total other financing sources	648,144	28,122	676,266
NET CHANGE IN FUND BALANCES	(27,624)	25,291	(2,333)
FUND BALANCES, beginning of year	29,682	371,362	401,044
FUND BALANCES, end of year	\$ 2,058	\$ 396,653	\$ 398,711

**ALLEGAN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	School lunch fund	Athletic fund	Community services fund	Total
ASSETS				
Cash	\$ 94,189	\$ 749	\$ 19,424	\$ 114,362
Receivables:				
Due from other governmental units	6,095			6,095
Other	1,207			1,207
Inventories	8,357			8,357
TOTAL ASSETS	\$ 109,848	\$ 749	\$ 19,424	\$ 130,021
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,697	\$	\$	\$ 7,697
Due to other funds	102,151	749	17,366	120,266
Total liabilities	109,848	749	17,366	127,963
Fund balances:				
Reserved:				
Inventories	8,357			8,357
Unreserved:				
Undesignated	(8,357)		2,058	(6,299)
Total fund balances			2,058	2,058
TOTAL LIABILITIES AND FUND BALANCES	\$ 109,848	\$ 749	\$ 19,424	\$ 130,021

**ALLEGAN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007**

	School lunch fund	Athletic fund	Community services fund	Total
REVENUES:				
Local sources:				
Food service sales	\$ 356,620	\$	\$	\$ 356,620
Athletic admissions		94,946		94,946
Interest	4,161	2,732	1,237	8,130
Community services and tuition			40,742	40,742
Other local revenue	969		6,468	7,437
State aid	32,474			32,474
Federal aid	441,675			441,675
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	835,899	97,678	48,447	982,024
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES:				
Salaries and wages	233,287	312,909	77,913	624,109
Employee benefits	192,783	108,126	26,698	327,607
Supplies and materials	63,437	12,808	1,069	77,314
Purchased services	1,609	75,224	1,215	78,048
Management fees	85,829			85,829
Other	1,255	18,304	7,195	26,754
Food costs	360,831			360,831
Operations and maintenance	6,133	71,120	47	77,300
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	945,164	598,491	114,137	1,657,792
	<hr/>	<hr/>	<hr/>	<hr/>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(109,265)	(500,813)	(65,690)	(675,768)
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES:				
Operating transfer in from general fund	95,295	499,823	53,026	648,144
	<hr/>	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	(13,970)	(990)	(12,664)	(27,624)
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES, beginning of year	13,970	990	14,722	29,682
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	<u>\$</u>	<u>\$</u>	<u>\$ 2,058</u>	<u>\$ 2,058</u>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	<u>1996</u>	<u>1998</u>	<u>2000</u>	<u>2005</u>	<u>Total</u>
ASSETS					
Cash	\$ 90,288	\$ 176,100	\$ 73,905	\$ 56,360	\$ 396,653
Receivables:					
Taxes	1,908	4,804	1,468	1,895	10,075
Due from other funds	21,321		182,149		203,470
TOTAL ASSETS	<u>\$ 113,517</u>	<u>\$ 180,904</u>	<u>\$ 257,522</u>	<u>\$ 58,255</u>	<u>\$ 610,198</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Deferred revenue	\$ 1,908	\$ 4,804	\$ 1,468	\$ 1,895	\$ 10,075
Due to other fund		161,597		41,873	203,470
Total liabilities	1,908	166,401	1,468	43,768	213,545
Fund balances:					
Reserved for debt service	111,609	14,503	256,054	14,487	396,653
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 113,517</u>	<u>\$ 180,904</u>	<u>\$ 257,522</u>	<u>\$ 58,255</u>	<u>\$ 610,198</u>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007**

	<u>1996</u>	<u>1998</u>	<u>2000</u>	<u>2005</u>	<u>Total</u>
REVENUES:					
Property taxes	\$ 510,360	\$ 1,788,316	\$ 547,919	\$ 905,392	\$ 3,751,987
Interest on investments	5,207	13,109	4,006	5,171	27,493
Total revenues	<u>515,567</u>	<u>1,801,425</u>	<u>551,925</u>	<u>910,563</u>	<u>3,779,480</u>
EXPENDITURES:					
Principal retirement	635,000	795,000	450,000	55,000	1,935,000
Interest on bonded debt	41,275	1,062,512	96,986	645,412	1,846,185
Miscellaneous	213	537	164	212	1,126
Total expenditures	<u>676,488</u>	<u>1,858,049</u>	<u>547,150</u>	<u>700,624</u>	<u>3,782,311</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(160,921)	(56,624)	4,775	209,939	(2,831)
OTHER FINANCING SOURCES:					
Proceeds from school loan fund	<u>5,326</u>	<u>13,410</u>	<u>4,097</u>	<u>5,289</u>	<u>28,122</u>
NET CHANGE IN FUND BALANCES	(155,595)	(43,214)	8,872	215,228	25,291
FUND BALANCES (DEFICIT), beginning of year	<u>267,204</u>	<u>57,717</u>	<u>247,182</u>	<u>(200,741)</u>	<u>371,362</u>
FUND BALANCES, end of year	<u>\$ 111,609</u>	<u>\$ 14,503</u>	<u>\$ 256,054</u>	<u>\$ 14,487</u>	<u>\$ 396,653</u>

ALLEGAN PUBLIC SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Student council - West Ward	\$ 4,840	\$ 3,189	\$ 2,937	\$ 5,092
West Ward library	1,398	5,288	4,748	1,938
Student council - Dawson	5,522	1,873	5,140	2,255
Student council - North Ward	1,377	1,984	1,811	1,550
Student council - Pine Trails	7,494	1,132	4,506	4,120
Junior Hi-lights	1,127	8,380	7,606	1,901
Student council - Jr. High	12,687	23,901	25,335	11,253
Quiz bowl	632	641	686	587
AHS literary magazine	161	125	275	11
Spanish club - Sr. club	1,913	1,041	1,129	1,825
French club	1,105	2,249	2,210	1,144
Echo - Yearbook	1,230	28,651	28,173	1,708
Power club	5,147	25,472	22,893	7,726
Decca club	1,808		450	1,358
National Honor society	5,714	5,933	8,010	3,637
Michigan Youth in government	663	5,196	5,496	363
Fellowship	743	382	406	719
Student council - Sr. High	4,728	21,638	22,182	4,184
Senior High recycling	238	592	437	393
Library - Sr. High	238	13		251
Senior high band	431	485	620	296
School store - Orange Crate	10,863	21,074	20,780	11,157
Dramatics - Sr. High	3,209	9,372	6,203	6,378
SADD - AHS chapter	531			531
Class of 1995	945			945

**ALLEGAN PUBLIC SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2007**

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Class of 1997	\$ 793	\$	\$ 793	\$
Class of 1999	1,394			1,394
Class of 2001	383			383
Class of 2002	131			131
Class of 2003	3,458		3,051	407
Class of 2004	3,915			3,915
Class of 2005	1,038			1,038
Class of 2006	1,686			1,686
Class of 2007	2,830	2,605	1,999	3,436
Class of 2008	1,450	9,100	6,054	4,496
Class of 2009	2,761	1,303	860	3,204
Class of 2010	670			670
Swim Club	1,103	7,284	7,914	473
Student council - Southward	8,495	7,471	7,310	8,656
Horticulture	3,338	3,723	3,041	4,020
Video production	1,607	1,590	1,339	1,858
	<u>\$ 109,796</u>	<u>\$ 201,685</u>	<u>\$ 204,394</u>	<u>\$ 107,087</u>

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$25,290,000 Refunding Bonds issued March 11, 1998:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 1,515,000	\$ 513,965	\$ 513,965	2008	\$ 2,542,930
1,580,000	480,256	480,256	2009	2,540,512
1,670,000	444,706	444,706	2010	2,559,412
1,655,000	406,296	406,296	2011	2,467,592
1,645,000	367,404	367,404	2012	2,379,808
1,635,000	327,513	327,513	2013	2,290,026
1,625,000	287,455	287,455	2014	2,199,910
1,615,000	247,236	247,236	2015	2,109,472
1,605,000	206,861	206,861	2016	2,018,722
1,590,000	166,335	166,335	2017	1,922,670
1,580,000	125,790	125,790	2018	1,831,580
845,000	85,500	85,500	2019	1,016,000
865,000	64,375	64,375	2020	993,750
860,000	42,750	42,750	2021	945,500
850,000	21,250	21,250	2022	892,500
<u>\$ 21,135,000</u>	<u>\$ 3,787,692</u>	<u>\$ 3,787,692</u>		<u>\$ 28,710,384</u>

The above bond issue bears interest at rates ranging from 4.35% to 5.10%. The bond proceeds were used to refund the 1992 and 1996 bond issues.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$17,890,000 Bonds issued August 10, 2000:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 450,000	\$ 38,562	\$ 38,562	2008	\$ 527,124
475,000	27,313	27,313	2009	529,626
<u>475,000</u>	<u>14,250</u>	<u>14,250</u>	2010	<u>503,500</u>
<u>\$ 1,400,000</u>	<u>\$ 80,125</u>	<u>\$ 80,125</u>		<u>\$ 1,560,250</u>

The above bond issue bears interest at rates ranging from 4.75% to 6.00%. The bond proceeds were used for construction of a new auditorium and pool.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$13,925,000 Refunding Bonds issued March 11, 2006

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 55,000	\$ 321,881	\$ 321,881	2008	\$ 698,762
60,000	321,056	321,056	2009	702,112
60,000	320,156	320,156	2010	700,312
535,000	319,256	319,256	2011	1,173,512
555,000	308,556	308,556	2012	1,172,112
580,000	296,763	296,763	2013	1,173,526
600,000	285,888	285,888	2014	1,171,776
615,000	273,888	273,888	2015	1,162,776
635,000	261,588	261,588	2016	1,158,176
655,000	245,713	245,713	2017	1,146,426
670,000	232,940	232,940	2018	1,135,880
690,000	219,875	219,875	2019	1,129,750
710,000	202,625	202,625	2020	1,115,250
735,000	184,875	184,875	2021	1,104,750
740,000	166,500	166,500	2022	1,073,000
740,000	148,000	148,000	2023	1,036,000
740,000	129,500	129,500	2024	999,000
740,000	111,000	111,000	2025	962,000
740,000	92,500	92,500	2026	925,000
740,000	74,000	74,000	2027	888,000
740,000	55,500	55,500	2028	851,000
740,000	37,000	37,000	2029	814,000
740,000	18,500	18,500	2030	777,000
<u>\$ 13,815,000</u>	<u>\$ 4,627,559</u>	<u>\$ 4,627,559</u>		<u>\$ 23,070,118</u>

The above bond issue bears interest at rates ranging from 3.00% to 5.00%. The bond proceeds were used for refunding a portion of the School District's outstanding 2000 School Building and Site Bonds.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2007**

\$463,213 1998 School Improvement Bonds (Durant Bonds)
issued November 24, 1998 (Limited Obligation Bonds)

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 25,779	\$ 6,750	2009	\$ 32,529
75,096	22,484	2010	97,580
28,292	4,237	2011	32,529
29,637	2,889	2012	32,526
31,048	1,478	2013	32,526
<u>\$ 189,852</u>	<u>\$ 37,838</u>		<u>\$ 227,690</u>

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**ALLEGAN PUBLIC SCHOOLS
AAESA LOAN
JUNE 30, 2007**

\$79,307 for the purchase of data storage and wide area network loan dated April 2007.

<u>Principal</u>	<u>June 30,</u>
\$ 19,827	2008
19,827	2009
19,827	2010
<u>19,826</u>	2011
<u><u>\$ 79,307</u></u>	

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF BORROWING - STATE OF MICHIGAN
SCHOOL BOND LOAN AND REVOLVING LOAN FUNDS
JUNE 30, 2007

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State of Michigan under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Accrued interest</u>	<u>Net increase</u>	<u>Balance</u>
2000	\$ 417,581	\$ 14,521	\$ 432,102	\$ 432,102
2001	1,199,605	31,801	1,231,406	1,663,508
2002	1,357,660	80,220	1,437,880	3,101,388
2003	268,991	111,985	380,976	3,482,364
2004	1,426,095	117,002	1,543,097	5,025,461
2005	203,987	152,352	356,339	5,381,800
2006	446,839	229,772	676,611	6,058,411
2007	28,122	289,263	317,385	6,375,796

ALLEGAN PUBLIC SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2007

CONTENTS

	<u>Page</u>
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	1 - 2
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	3 - 5
Schedule of expenditures of federal awards	6 - 9
Notes to schedule of expenditures of federal awards.....	10
Schedule of findings and questioned costs	11 - 14
Schedule of prior audit findings.....	13 - 16
Corrective action plan	17 - 18



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Allegan Public Schools
Allegan, Michigan

October 1, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2007, which collectively comprise Allegan Public Schools' basic financial statements and have issued our report thereon dated October 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as 2007-01, 2007-02, and 2007-03 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

To the Board of Education
Allegan Public Schools
Allegan, Michigan

October 1, 2007

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above as 2007-01, 2007-02, and 2007-3 we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Allegan Public Schools in a separate letter dated October 1, 2007.

Allegan Public Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Allegan Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costenaro & Ellis, P.C.

Certified Public Accountants



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Directors
Allegan Public Schools
Allegan, Michigan

October 1, 2007

Compliance

We have audited the compliance of Allegan Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Allegan Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Allegan Public Schools' management. Our responsibility is to express an opinion on Allegan Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allegan Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan Public Schools' compliance with those requirements.

In our opinion, Allegan Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Allegan Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the district's internal control. We consider the deficiency described as 2007-04 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial compliance.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the district's internal control.

Allegan Public School's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Allegan Public School's response and, accordingly, we express no opinion on it.

To the Board of Education
Allegan Public Schools

October 1, 2007

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated October 1, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Allegan Public Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costenaro & Ellis, P.C.

Certified Public Accountants

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2006	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2007
U.S. Department of Agriculture:							
Passed through Michigan Department of Education:							
Child Nutrition Cluster:							
National School Lunch Program:	10.555						
61950 & 61960 Lunch (2005-2006)		\$ 309,293	\$	\$ 275,846	\$ 33,447	\$ 33,447	\$
71950 & 71960 Lunch (2006-2007)		278,667			278,667	278,667	
Total National School Lunch Program		587,960		275,846	312,114	312,114	
National School Breakfast Program	10.553						
51970 Breakfast (2005-2006)		77,726		70,925	6,801	6,801	
61970 Breakfast (2006-2007)		74,664			74,664	74,664	
Total National School Breakfast Program		152,390		70,925	81,465	81,465	
Special Milk Program for Children	10.556						
61940 Special Milk Program (2005-2006)		2,850		2,619	231	231	
71940 Special Milk Program (2006-2007)		2,206			2,206	2,206	
Total Special Milk Program for Children		5,056		2,619	2,437	2,437	
Total Child Nutrition Cluster		745,406		349,390	396,016	396,016	

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2006	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2007
U.S. Department of Agriculture (Concluded):							
Passed through Michigan Department of Education:							
Food Distribution:	10.550						
Entitlement Commodities		\$ 44,925	\$	\$ 35,356	\$ 44,925	\$ 44,925	\$
Bonus Commodities		734		13,391	734	734	
Total USDA Non-Cluster Assistance		45,659		48,747	45,659	45,659	
Total U.S. Department of Agriculture		791,065		398,137	441,675	441,675	
U.S. Department of Education:							
Passed through Michigan Department of Education:							
Title I:	84.010						
Project number 061530-0506		441,894	139,837	369,274	71,191	211,028	
Project number 071530-0607		448,655			380,826	265,675	115,151
Total Title I		890,549	139,837	369,274	452,017	476,703	115,151
Title V:	84.298						
Project number 060250-0506		1,200			1,200	1,200	
Project number 070250-0607		602			520		520
Total Title V		1,802			1,720	1,200	520
Ed Tech - Formula Grants	84.318						
Project number 054290-0405		8,231	(2,331)			(2,331)	
Project number 064290-0506		8,244			8,244	8,244	
Project number 074290-0607		4,581			4,581		4,581
Total Ed Tech		21,056	(2,331)		12,825	5,913	4,581

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2006	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2007
U.S. Department of Education (Continued):							
Passed through Michigan Department of Education:							
Improving Teacher Quality:	84.367						
Project number 060520-0506		\$ 147,793	\$ 143,966	\$ 143,966	\$ 3,827	\$ 147,793	\$
Project number 070520-0607		147,262			145,385	117,747	27,638
Total Improving Teacher Quality		295,055	143,966	143,966	149,212	265,540	27,638
Total passed through Michigan Department of Education		1,208,462	281,472	513,240	615,774	749,356	147,890
Passed through Allegan County Intermediate School District:							
Transition Services:	84.027						
Project number 060490-TS		631	180	631		180	
Project number 060690-TS		104			104	104	
Total Transition Services		735	180	631	104	284	
PL94-142 Pre School Incentive:	84.173						
Project number 060660		9,902			9,902	9,902	
Vocational Education:	84.048						
CTE Perkins Regional Plan 3813		92			92	92	
WIA Cluster:	17.259						
Youth-Aim Lab WIA-053-05		11,638	11,638	11,638		11,638	
Total passed through Allegan County Intermediate School District		22,367	11,818	12,269	10,098	21,916	

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2006	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2007
U.S. Department of Education (Continued):							
Passed through Ottawa County Intermediate School District:							
Drug Free Schools and Communities:	84.186						
Project number 062860		\$ 11,512	\$	\$ 11,512	\$	\$	\$
Project number 072860		9,127			9,127	9,127	
Total passed through Ottawa County Intermediate School District		20,639		11,512	9,127	9,127	
Passed through Office of Safe and Drug-Free Schools:							
Mentoring Program Grants Q184B050035	84.184B	204,622	419	101,871	87,302	85,881	1,840
Total U.S. Department of Education		1,456,090	293,709	638,892	722,301	866,280	149,730
TOTAL FEDERAL AWARDS		<u>\$ 2,247,155</u>	<u>\$ 293,709</u>	<u>\$ 1,037,029</u>	<u>\$ 1,163,976</u>	<u>\$ 1,307,955</u>	<u>\$ 149,730</u>

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Allegan Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciled with the amounts presented in the preparation of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Title I (CFDA #84.010) and Title II, Part A (CFDA #84.367) were audited as major programs and represents 51% of expenditures.
2. The threshold for distinguishing Type A and B programs was \$300,000.
3. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 722,301
Other nonmajor governmental funds	<u>441,675</u>
	<u><u>\$ 1,163,976</u></u>

4. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. The National School Lunch Program Commodities Entitlement award was \$44,925. The District received commodities totaling \$44,925. Based upon confirmation from the Michigan Department of Education, \$44,925 has been recorded.

Northern Warehousing	\$ 30,859
Great Lakes Co-op	<u>14,066</u>
	<u><u>\$ 44,925</u></u>

6. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

➤ Material weakness(es) identified? X Yes No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
#84.010	Title I
#84.367	Title II, Part A

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section II – Financial Statement Findings

Finding 2007-1 Considered a material weakness

Criteria: Material audit adjustments were proposed by the external auditor and accepted and recorded by the client.

Condition: Adjustments were not made to accurately reflect the transactions taking place at year end. All entries proposed by the external auditors were recorded and included in the June 2007 audit report.

Context: Failure to make material adjustments increases the risk that the financial statements will be materially misstated.

Effect: Inaccurate financial information may be used for management decisions and reporting.

Cause: Lack of review by the staff and management of the accounting transactions that have occurred at year end.

Recommendation: The District should review year end transactions and record journal entries for any transactions not recorded.

Finding 2007-2 Considered a material weakness

Criteria: During the year, month-end reconciliations of primary asset and liability accounts were not completed in a timely manner generally within 30 days of month-end. This resulted in year end adjustments to several accounts.

Condition: During the year, all cash and other balance sheet accounts were not adjusted and reviewed monthly. At year end June 30, 2007, all bank accounts and material asset and liability accounts have been reconciled and adjusted where appropriate.

Effect: Inaccurate interim financial information may be used for management decisions and reporting.

Cause: Completion of reconciliations primarily in the area of cash, investments, accounts receivable, accounts payable, accrued liabilities and revenue on a monthly basis was not completed.

Recommendation: The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Finding 2007-3 Considered a material weakness

Criteria: Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition: Currently, the District's staff requests the external auditor's assistance in the preparation of the annual financial statements and related footnotes.

Context: External assistance is required to prepare the annual financial statements and related footnotes.

Effect: Utilization of the external auditor in preparing the financial statements and related footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Cause: The staff of the district does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the financial statements and footnotes to the financial statements.

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section III – Federal Award Findings and Questioned Costs

Finding 2007-4 Considered a significant deficiency

Federal Programs: Title I CFDA #84.010

Specific Requirement: Cash management

Criteria: The grant in question allows for cash advances for up to three days of cash needs.

Condition: The District incorrectly forecasted its cash needs received cash advances in excess of immediate cash needs.

Questioned Costs: The District may owe interest income earned back to the Michigan Department of Education. Subsequent to June 30, 2007, \$58,838 had been received and not expended. The excess cash was subsequently refunded prior to the date of this report to the Michigan Department of Education.

Context: This is a long-standing program for the District and the inexperience of the employee involved with administering this program resulted in this error. This was an isolated occurrence.

Effect: The District received the benefit of interest earnings on the unspent federal funds.

Cause: Premature request of funds which could not be spent within the subsequent three days.

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the three day needs criteria.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

Finding 2006-1

Criteria: During the year, month-end reconciliations of primary asset and liability accounts were not completed in a timely manner. This resulted in year end adjustments to several accounts.

Condition: During the year, the District experienced employee turnover with its Business Manager.

Effect: Material weakness in internal control.

Cause: Completion of reconciliations primarily in the area of cash, investments, accounts receivable, accounts payable, accrued liabilities and revenue on a monthly basis was not completed.

Recommendation: The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

Status: The District is continuing its effort to implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. Refer to Finding 2007-2.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

Finding 2006-2 Considered a significant deficiency

Federal Programs: Mentoring Program Grant CFDA #84.184B

Specific Requirement: Cash management

Criteria: The grant in question allows for cash advances for up to three days of cash needs.

Condition: The District incorrectly forecasted its cash needs through the school year, and consequently received cash advances in excess of immediate cash needs.

Questioned Costs: The District may owe interest income earned back to the Michigan Department of Education. At June 30, 2006, \$35,638 had been received and not expended. The excess cash was subsequently refunded after June 30, 2006, to the Michigan Department of Education.

Context: This was the first year of a three year grant and the inexperience of the employees involved with administering this program resulted in this error.

Effect: The District has excess cash and an accounts payable balance at June 30, 2006. The District received the benefit of interest earnings on the unspent federal funds.

Cause: Premature request of funds which could not be spent within the subsequent three days.

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the three day needs criteria.

Status: The District has improved its documentation of federal expenditures, but the inexperience of the individual responsible for administering the program has resulted in another cash advance request that exceeds the District's cash needs. The prior year amount of \$35,638 has been appropriately corrected.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 1, 2007

To the Board of Education
Allegan Public Schools
Allegan, Michigan

In planning and performing our audit of the financial statements of Allegan Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Allegan Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Allegan Public School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Allegan Public School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 1, 2007, on the financial statements of Allegan Public Schools. Our comments are summarized as follows:

Prior Year Comments

Overview - Numerous comments were addressed during the year. This letter identifies the comments which have been implemented and others which were addressed but not fully implemented during the year.

We have issued a separate report identifying significant deficiencies which need to be addressed. Certain prior year comments are addressed in the additional reports required by *OMB Circular A-133 Schedule of Findings and Questioned Costs*.

Separate Debt Service Funds - Repeat Comment

Status: Currently, all of the debt service fund assets, liabilities, equity and activities are recorded in one fund. To improve reporting and reconciling procedures, we recommend that each debt service fund be broken out into its own fund noting all individual balances and activity in a format similar to the audit report.

Imprest Payroll Account

Status: The District has moved all payrolls to an imprest basis during FY-07, which allows for a timely, effective reconciliation of the payroll bank account and limits exposure to unauthorized disbursements.

Conclusion: We believe management has appropriately addressed this issue.

Improve Internal Controls Relating to the Payroll Process

Status: Management can now request reports from the ISD to validate any changes made to employee payroll information. This added control will assist in the review of payroll related details to limit the possibility of fictitious employees and that payroll appears reasonable.

Conclusion: We believe management has appropriately addressed this issue.

A Comprehensive Disaster Recovery Plan should be Developed and Tested

Status: Management has developed a disaster recovery plan, which will aid in limiting the possible exposure to business interruption.

Conclusion: We believe management has appropriately addressed this issue. We do recommend the District update and test the plan on a regular basis.

Cash Management: Cash Receipts

Status: Management has reinforced the necessity of maintaining proper receipt books at its various locations. This documentation is an important part of the books and records, and continued effective internal controls need to be maintained.

Conclusion: We believe management has appropriately addressed this issue.

Control of Check Signature Software

Status: An individual within Management, but separate of the accounting function now enters a password to activate the check signing capabilities of the computerized check signing software. This procedure strengthens the review and approval aspect of the cash disbursement process.

Conclusion: We believe management has appropriately addressed this issue.

Retain Payroll Run Documentation

Status: Management is retaining all relevant payroll related documentation either through routine print-outs or by electronic means, which provides the District with ample support for all payroll related needs.

Conclusion: We believe management has appropriately addressed this issue.

Adequacy of Bonding Insurance Coverage

Status: Management has increased its level of bonding insurance from \$10,000 to \$250,000. Bonding coverage insures an organization in the event of theft or embezzlement by an employee and is an inherent element in any system of internal controls.

Conclusion: We believe management has appropriately addressed this issue.

Free and Reduced Documentation

Status: Management has increased its review process concerning free and reduced documentation to validate all student applications for eligibility into the federal program.

Conclusion: We believe management has appropriately addressed this issue.

Current Year Comments

Accounting System - Repeat Comment

It is our understanding that the District will be transitioning to a new software package/upgrade from the existing software. We strongly encourage a proper oversight by management during the upgrade phase.

Please be aware of the following points before, during, and after the implementation process:

- Document all processes performed with the upgraded software and create/update the accounting procedures manual.
- Perform a formal testing of the upgrades to check functionality and review all internal control aspects during and after the upgrade process so that no controls are circumvented.
- Update all safeguards and password-protect all data.
- Review all accounts before and after the upgrade process to obtain assurance that all accounts have maintained their integrity.

- Be aware of any limitations of duties by personnel with the upgrades and prepare to shift responsibilities if the need arises.
- Perform training for employees to ease transition.
- Review/create a disaster recovery plan for all data.

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,

- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less,
and
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

Intent

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Interpretation of Deferred Compensation Rules Applicable To Teachers and Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can affect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Allegan Public Schools
Allegan, Michigan

9

October 1, 2007

This report is intended solely for the information and use of Allegan Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costenson & Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 1, 2007

To the Board of Education
Allegan Public Schools
Allegan, Michigan

We have audited the financial statements of Allegan Public Schools for the year ended June 30, 2007, and have issued our report thereon dated October 1, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Allegan Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Allegan Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Allegan Public Schools' compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during October 1, 2007. We noted no transactions entered into by Allegan Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the school district's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, some of the adjustments we proposed, which were recorded by the school district, either individually or in the aggregate, indicate matters that could have a significant effect on the school district's financial reporting process.

Adjust federal revenue	\$ 149,730
Adjust ISD revenue	33,561
Adjust other revenue	25,970
Adjust accounts payable and related expenditures	(59,307)
Adjust deferred revenue	12,370
Miscellaneous adjustments	1,476
	<hr/>
	\$ 163,800

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the school district's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. We did incur additional time performing the audit.

This information is intended solely for the use of management, board of education, and management of Allegan Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mamie Costeniser & Ellis, P.C.

**ALLEGAN PUBLIC SCHOOLS
CORRECTIVE ACTION PLAN
JUNE 30, 2007
CONTACT PERSON: DON KOPERSKI
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Allegan Public Schools respectfully submits the following corrective action plan for the year ended June 30, 2007.

Auditor: Maner, Costerisan & Ellis, P.C.
544 Cherbourg Drive, Suite 200
Lansing, Michigan 48917-5010

Audit Period: Year ended June 30, 2007

The finding from the June 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Finding 2007-1 Considered a material weakness

Recommendation: The District should review year end transactions and record journal entries for any transactions not recorded.

Action to be taken: We concur with the recommendation. We will review year end transactions to insure that they are recorded in the proper period.

Finding 2007-2 Considered a material weakness

Recommendation: The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

Action to be taken: We concur with the recommendation. We have worked diligently to resolve all issues. We are currently in the process of instituting month-end closing procedures.

Finding 2007-3 Considered a material weakness

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Action to be taken: We will continue to rely on our external auditors to assist in the preparation of the annual audited financial statements and footnotes.

Finding - Federal award audit

Finding 2007-4 Considered a significant deficiency

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the 3 day cash needs criteria.

Action to be taken: We concur with the recommendation. We have worked diligently to improve the federal grant request process.